CEDBR FISCAL BENEFIT – COST MODEL 2011

Center for Economic Development and Business Research
Wichita State University

HISTORY OF MODEL DEVELOPMENT

- Board of Tax Appeals (BOTA) requires analysis for tax abatements and IRBs
  - (Now the Court of Tax Appeals)
- State model developed and funded by Kansas Inc. and Kansas League of Municipalities in 1993, but not kept up-to-date
- GWEDC provided funding for development of new model
  - Model needed to comply with Court of Tax Appeals requirement

WHY WAS THE CURRENT MODEL DEVELOPED?

- Old model outdated
  - SIC not NAICS
  - Other limitations
- Allow greater flexibility
- Local technical support
- Available for use throughout ED process

TWO VERSIONS OF THE MODEL

Desktop Model

- Given to regional partners
- Returns output for City and County
- User Friendly

Full Model

- Returns output for City, County, State and School District
- Created to be flexible; therefore, more complex than Desktop model

INPUT – OUTPUT MODELING

- Goal: quantify the changes in tax entity revenues from a change in local industry
- Model requires company data, incentive data
  - Data is provided by company or economic development representative
- In addition, CEDBR maintains a data base of local tax structures
- Based on the data, the model follows the dollars from an industry expansion/contraction as it flows to other businesses in the community, employees and local governments
- Output is based on existing tax structure and policy

DATA NEEDED: COMPANY DATA

- NAICS code
- Capital investment
  - Land, buildings, machinery and equipment
- Number of new jobs
- Average wages of new jobs
- New/additional company sales
- New/additional company purchases
- New/additional company visitors

DATA NEEDED: INCENTIVES

- Dollar value of incentives by type and taxing jurisdiction
  - Tax abatement (years/percentage)
  - Forgivable loan
  - Training dollars
  - Infrastructure improvement
  - Cash value of all other incentives

DATA NEEDED: COMMUNITY DATA

- Tax rates
- Mill levy rates
- Budget information
- Number of residents
- Number of employed residents
- Avg. market value of new residential property
- Avg. wage all jobs
- LOB (local option budget) mill levy rate
- LOB percentage of general budget
- Capital outlay mill levy rate
- Number of students
- General Fund Budget

BASE VS. SUPPORT INDUSTRY

- We have two types of industry:
  - Base – brings outside dollars in
  - Support – reshuffles existing dollars
- Base industries and support industries may look very different from one community to the next.

MULTIPLIERS

- Calculated by the US Dept. of Commerce, BEA
- Quantifies the ripple from the change in an industry.
  - Direct
  - Indirect/Induced
  - Total
- Base industry has a larger multiplier than a support industry
- Direct, Indirect and Total jobs/and or payroll

WORKER SPENDING PATTERNS

- A major source of revenue for taxing jurisdictions is retail sales taxes
- To account for these revenues, we must know what percentage of a company's sales and purchases are subject to sales tax; it is also necessary to estimate these percentages for company employees/payroll
- Captured retail sales
  - County – "County Pull Factors" (KSU)
  - City – city pop. is divided by county pop. (calculate Wichita's share of Sedgwick County sales tax revenue)

CITY MEASURES

Benefits

- Property Taxes
- Retail Sales Taxes
- Transient Guest Taxes
- Other Fees & Taxes

Costs

- Incentives
- Cost of providing city/county services

OUTPUT

- Return on Investment (ROI)
  - The annual rate of return, over the next 10 years, on each taxing entity's investment in the company
- Benefit Cost Ratio
  - Compares public benefits over a ten-year period from the new or expanding company to public costs during the same period
- Net Present Value

LIMITATIONS

- Quantitative vs. Qualitative
- Relies on information given to us
- The desktop version purposely underestimates benefits to the community
- Depending on the situation, can under- or over-estimate impacts
  - Example – large capital expenditure with tax abatement may outweigh benefits seen from new jobs